

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

GENESEO TELEPHONE COMPANY,)	
CAMBRIDGE TELEPHONE COMPANY and)	
HENRY COUNTY TELEPHONE COMPANY)	
)	Docket 11-0210
Petition for Universal Service.)	
)	
)	
ILLINOIS INDEPENDENT TELEPHONE)	
ASSOCIATION)	
)	Docket 11-0211
Petition to update the Section 13-301(1)(d) Illinois)	
Universal Service Fund and to implement)	
Intrastate Switched Access Charge reform as)	
described herein and for other relief.)	
)	Consolidated

DIRECT TESTIMONY

OF

JAMES E. STIDHAM

**ON BEHALF OF
AT&T ILLINOIS**

MAY 9, 2011

1 **Q. WHAT IS YOUR NAME, TITLE AND BUSINESS ADDRESS?**

2 A. My name is James E. Stidham, Jr. My title is Area Manager-Regulatory Planning and
3 Policy. My business address is 555 East Cook Street, Room 01018, Springfield, Illinois
4 62703.

5
6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

7 A. I am employed by AT&T Services, Inc., as an Area Manager-Regulatory Planning and
8 Policy in AT&T's Global Public Policy group.

9
10 **Q. WHO ARE YOU TESTIFYING FOR IN THIS CAUSE?**

11 A. I am testifying on behalf of Illinois Bell Telephone Company ("AT&T Illinois").
12

13 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

14 A. My responsibilities include the development of Universal Service Fund ("USF") policy in
15 all of AT&T's jurisdictions, including Illinois.

16
17 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

18 A. I hold Bachelors Degrees in Telecommunications and in Political Science from the
19 University of Oregon. I have also done graduate level coursework in Communications at
20 the University of Iowa, and in Political Science at Portland State University.

21
22 **Q. PLEASE SUMMARIZE YOUR TELECOMMUNICATIONS INDUSTRY WORK**
23 **EXPERIENCE.**

24 A. I have approximately twenty three years of telecommunications experience. In 1988, I
25 began my career in the telephone industry at the National Exchange Carrier Association
26 (“NECA”) in the Industry Relations organization. I was responsible for developing
27 Average Schedule methods and procedures, analyzing the impact of new technologies on
28 the NECA member companies, developing special settlements for carriers implementing
29 new technologies (e.g. Equal Access and SS7) and reviewing and analyzing Federal
30 Communications Commission (“FCC”) rule changes. I also assisted in the development
31 of the NECA Access Charge Handbook.

32
33 In 1992, I joined Bell Atlantic (now Verizon) and worked in a variety of regulatory roles
34 both at Bell Atlantic-West Virginia and Bell Atlantic Corporate in Maryland. My
35 responsibilities included regulatory support, intercarrier settlement, regulatory finance
36 and marketing.

37
38 In 1997, I joined American Communications Services, Inc. (“ACSI”), later known as
39 e.spire Communications, Inc., and now as Xspedius Management Company, as the
40 Director of Carrier Management. My responsibilities with ACSI included wholesale
41 billing, the development of reciprocal compensation policy, billing methods and the
42 billing of reciprocal compensation, industry relations, and the creation and management
43 of its telco cost control organization.

45 In 1998, I left ACSI to provide executive consulting services to competitive local
46 exchange carriers (“CLECs”) and to a small incumbent local exchange carrier (“ILEC”).
47 This consulting work involved several subjects, including intercarrier compensation, and
48 billing and cost control operations matters.

49
50 In July 2000, I joined the AT&T (formerly SBC) family of companies. I am a member of
51 AT&T’s Global Public Policy group and work on various policy analysis and
52 development matters, particularly universal service issues, and often serve as AT&T’s
53 corporate policy witness on universal service fund matters. I also participate in the
54 development and analysis of corporate policy for intercarrier compensation (i.e.,
55 reciprocal compensation and access charges) and have previously participated in the
56 development of corporate policy for advanced services.

57
58 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**
59 **COMMISSIONS?**

60 A. Yes. I have filed testimony before this Commission in Docket No. 04-0354 (Alhambra-
61 Grantfork Telephone Company, Petition for Universal Service Support (“the Alhambra
62 proceeding”)), and before the Missouri Public Service Commission, the Public Utility
63 Commission of Nevada, the Oklahoma Corporation Commission, the Kansas Corporation
64 Commission, the Arkansas Public Service Commission and the Indiana Utility
65 Regulatory Commission. I have also participated in workshops at the Oklahoma

66 Corporation Commission, the Public Utility Commission of Texas, the California Public
67 Utility Commission, the Arkansas Public Service Commission, the Kansas Corporation
68 Commission, the Indiana Utility Regulatory Commission, the Georgia Public Service
69 Commission, the Florida Public Service Commission, the South Carolina Public Service
70 Commission, the Arizona Corporation Commission, the Nevada Public Utility
71 Commission, and the Missouri Public Service Commission.

72
73 **Q. WERE YOU INVOLVED IN THE ORIGINAL ILLINOIS USF PROCEEDINGS,**
74 **DOCKET NOS. 00-0233 AND 00-0335 (CONSOLIDATED) (“THE 0233 USF**
75 **PROCEEDING”) THAT LED TO THE CREATION OF THE SECTION 13-301(D)**
76 **USF FUND AND, IF SO, WHAT WAS YOUR INVOLVEMENT?**

77 A. I became involved in the AT&T Illinois filings starting in 2002, shortly after the
78 Commission had issued its Second Interim Order in the 0233 USF proceeding. In my
79 role as a USF subject matter expert with the company, I worked with the AT&T Illinois
80 regulatory team contributing to, and reviewing, the filings made in the consolidated
81 proceeding.

82
83 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

84 A: The purpose of my testimony is to provide support for the adoption by the Commission
85 of the Stipulation and Agreement entered into by the Illinois Independent Telephone
86 Association (“IITA”) and AT&T Illinois (“the Stipulation”). That Stipulation was
87 attached to the Petition that was filed by the IITA to initiate one of these two consolidated
88 proceedings—Docket No. 11-0211—and was subsequently amended on May 5, 2011.

89
90 My testimony will provide an overview of the Stipulation. Larry Bax, the second witness
91 testifying on behalf of AT&T Illinois, will discuss the portions of the Stipulation that
92 address access charges. More specifically, he will explain why the mirroring of interstate
93 access charges is good public policy.

94

95 **Q: DID YOU REVIEW THE STIPULATION?**

96 A: Yes.

97

98 **Q: PLEASE OUTLINE BRIEFLY WHAT THE STIPULATION PROVIDES.**

99 A: The Stipulation provides for a review and update of the IITA carriers' Illinois USF high
100 cost support. The methodology used is an updated forward-looking HAI Cost model
101 combined with a rate of return review. This methodology was previously utilized to set
102 up the IUSF in the 0233 proceeding. The companies that were granted support in that
103 proceeding made their application based on year 2000 financial results as adjusted by the
104 orders in that proceeding. Under the Stipulation, the funded companies would utilize the
105 same rate-of-return methodology from that proceeding to establish a need and their
106 qualification to update the basic elements of the IUSF. In calculating the increased
107 amounts of support sought, the IITA utilized as inputs: 1) 2009 financial results with
108 adjustments for 2010; 2) an after tax cost of capital of 12.60% for telephone cooperatives
109 or 11.21% for small commercial companies; and 3) an affordable rate of \$20.39 per
110 month. As indicated in the Stipulation, the adjustments would result in an increase in the

overall USF size. However, the increase is less than what the increase would have been as shown in revised Exhibit 2 to the Stipulation.

Additionally, the Stipulation also requires the participating IITA carriers to adjust their intrastate switched access rates to levels that mirror their respective interstate switched access rates and structure. For purposes of the Stipulation, the HAI Cost Model is again used to determine the legislatively permitted proxy cost and to determine the amounts of subsidy in switched access rates in the same manner as the HAI was utilized to establish the basic elements of the IUSF in the Second Interim Order in the 0233 Proceeding. The Stipulation provides for the creation of an access restructuring element of the fund that would enable the IITA companies to receive explicit support for decreases in revenue resulting from the change in their respective intrastate access rates.

Q: WHY IS AT&T ILLINOIS SUPPORTING THE STIPULATION?

A: AT&T Illinois supports the Stipulation for several reasons. First, it comports with prior Commission USF orders. While AT&T Illinois does not necessarily agree with the methodologies adopted in the 0233 USF proceeding, the Stipulation limits the IITA members relief to what was agreed to in the Stipulation, which is less than what is indicated is needed using those methodologies. At the same time, the Stipulation provides an opportunity for future adjustments to the IUSF to ensure that it is consistent with Section 13-301 of the Illinois statute and with Orders that may be entered by the Federal Communications Commission (“FCC”) in the future. Second, there are tradeoffs in the Stipulation which seem reasonable. Specifically, the Stipulation addresses

AT&T's concerns about the level of the IITA members' intrastate switched access charges. Under the Stipulation, the IITA members' respective intrastate switched access rates would immediately be adjusted to mirror their respective interstate switched access rates and structure. As Mr. Bax discusses more fully in his testimony, it is sound public policy that intrastate switched access should mirror the corresponding interstate rates and structure. Third, as Mr. Bax also discusses in his testimony, the mirroring of interstate rates that would be required if the Stipulation is approved, would be consistent with last year's rewrite of Article 13, pursuant to which all other ILECs (those with more than 35,000 lines) and all CLECs in Illinois are required to mirror their respective interstate switched access rates and structure. In sum, I believe that the Stipulation is on the whole a reasonable approach, at this time, to update the Illinois USF support levels and to address access charge issues.

Q: YOU MENTIONED THAT YOU BELIEVE THE STIPULATION COMPLIES WITH THE METHODOLOGIES ADOPTED BY THE COMMISSION IN ITS PRIOR ORDERS IN THE 0233 USF PROCEEDING AND THE ALHAMBRA ORDER IN 04-0354. PLEASE EXPLAIN.

A. The Stipulation, as it relates to high cost support: 1) includes a modification to the original form 1.01 (See Agreement Exhibit 1) that provides for an adjustment to the IITA carriers' network costs to address the impact of the lag in federal USF ("FUSF") support; 2) does not guarantee recipients IUSF support based on a level of rate of return ("ROR") used in the 0233 USF proceeding; and 3) otherwise provides for adjustments to deal with

broadband costs reported by the carrier, if the carrier's data does not comply with the FCC's cost allocation methodologies regarding broadband costs.

While AT&T Illinois does not necessarily agree with the methodologies adopted in the 0233 USF proceeding, the use of the 0233 USF proceeding provides a reasonable result within the context of the Stipulation; it permits the IITA members to obtain additional funding, something they have indicated is needed. As the Commission noted in the Alhambra proceeding, the Commission is not precluded from employing the same criteria used in the 0233 USF proceeding to determine the carrier's IUSF support amounts, though it was clear that it was not required by prior orders or statute to use the same criteria.

Q: YOU MENTIONED THAT THE STIPULATION PROVIDES FOR AN ADJUSTMENT TO THE IITA CARRIERS' NETWORK COSTS TO ADDRESS THE LAG IN FUSF SUPPORT. CAN YOU EXPLAIN WHAT YOU MEAN BY LAG IN FUSF SUPPORT?

A: The FUSF High Cost Loop ("HCL") support provides rural carriers financial support for the carrier's loop costs if the loop cost exceeds 115% of the National Average Cost Per Loop ("NACPL"). The data used to provide the HCL in a given year is based on the carrier's cost data from two years prior to the year the carrier receives the actual support.

Q: WHY IS IT IMPORTANT TO MAKE AN ADJUSTMENT TO ADDRESS THE LAG IN FUSF HCL SUPPORT?

179 A: If adjustments to the network investment are not made, the network costs are included in
180 the carrier's revenue requirements, but the future revenue from FUSF high cost loops
181 support is not accounted for when developing the carrier's state USF support amount.
182

183 **Q. HOW IS THE LAG IN FUSF HIGH COST LOOP SUPPORT DEALT WITH IN**
184 **THE STIPULATION?**

185 A. As noted in paragraph seven of the Stipulation, the calculation of the Illinois USF high
186 cost support will be updated based upon 2009 actual results with allowable adjustments
187 for 2010. The IITA carriers agreed to make adjustments to their cost data to account for
188 recent network investments.
189

190 **Q. HOW ARE THE COSTS ASSOCIATED WITH BROADBAND TREATED IN**
191 **THE STIPULATION?**

192 A: Most of the carriers used the FCC's Part 64 cost allocation rules to allocate their
193 regulated and non-regulated costs. The few that did not use Part 64 cost allocation rules
194 to allocate their costs agreed to make adjustments to their cost data on the Form 1.01 as
195 follows:

196 The IITA carriers agreed to make certain that the cost and revenue associated with all of
197 their services are in sync. This will be done by ensuring that the revenue from a service
198 is included in the form 1.01 if the cost of the service is included in the form 1.01.
199

200 **Q. ARE THE IITA CARRIERS GUARANTEED AN 11.21% RATE OF RETURN BY**
201 **THE STIPULATION?**

202 A: No, the support calculated in the Stipulation results in a ROR of 9.34%, which is lower
203 than the 11.21% that the IUSF currently provides for. The Stipulation does not guarantee
204 that the carriers will receive the ROR previously used in the 0233 USF proceeding. The
205 IITA carriers are not precluded from earning the previously approved ROR, but they are
206 not guaranteed the higher ROR pursuant to the IUSF.

207

208 **Q: HOW DOES THE STIPULATION ADDRESS FUTURE CHANGES AS A**
209 **RESULT OF FCC ORDERS OR GENERAL CHANGES IN THE INDUSTRY?**

210 A: The Stipulation recognizes that the FCC is investigating federal universal service reform,
211 intercarrier compensation reform and issues related to the National Broadband Plan.
212 Language was included in the Stipulation that provides that any party that believes that
213 changes at the federal level necessitate changes to the IUSF may petition for a review if
214 the Commission has not already initiated such a proceeding on its own motion. If the
215 Illinois Commission has not initiated a review within three years from the date the
216 Commission approves an updated IUSF, either the Commission on its own motion or any
217 party to the proceeding may initiate a review and further updating.

218

219 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

220 A: Yes.